Tao Heung Announces 2017 Annual Results

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(Hong Kong, 22 March 2018) – **Tao Heung Holdings Limited** ("Tao Heung," or together with its subsidiaries the "Group;" stock code: 573), a leader in Chinese culinary trends, announced its annual results for the year ended 31 December 2017.

As a result of a decline in outlets and contraction in same store sales, coupled by fierce market completion, the Group recorded total revenue of HK$4,025.3 million for the year ended 31 December 2017 versus HK$4,287.2 million in the preceding year. Owing to the investment in the workforce which the management trusts will result in long-term gains for the Group. Profit attributable to owners of the parent declined to HK$89.1 million (2016: HK$177.8 million). Hong Kong continues to be the largest revenue contributor to the Group, accounting for 63.9% of the total revenue (2016: 64.8%) with the Mainland China operation accounting for 36.1% (2016: 35.2%).

The Board has proposed a final dividend of HK6.0 cents (2016: HK6.0 cents) per share. Together with an interim dividend of HK5.5 cents per share already paid (2016: HK6.0 cents), the total dividend will be HK11.5 cents (2016: HK16.0 cents which includes a special dividend of HK4.0 cents), which represents a dividend payout ratio of 131.2% (2016: 91.5%).

Mr Chung Wai Ping, Chairman of Tao Heung, said, "Kicked off last year, our four-pronged five-year plan to further the Group's development has commenced. Summed up by the acronym "MISS", which stands for Marketing, Innovation, Service and Succession, this holistic approach has begun to take traction.."

<u>Hong Kong Operations</u>

The Hong Kong operations contributed HK$2,571.1 million (2016: HK$2,779.6 million) in revenue during the review year. Earnings before interest, taxes, depreciation and amortisation (EBITDA) reached HK$196.5 million (2016: HK$293.7 million), with profit attributable to owners of the parent at HK$74.9 million (2016: HK$139.4million).

Over the past year, competition has continued to intensify due in part to the entry of more diverse participants into the Hong Kong market. Among their target customers are millennials given their greater spending power, willingness to try new culinary delights, and preference for non-Chinese cuisine and specialty dining. In the face of such headwinds, the Group devised and employed a number of marketing strategies towards the latter part of 2017. These strategies resulted in an increase in same store sales in the fourth quarter, among which included restaurants that offered "all you can eat hot pot".

Besides delivering value to consumers, the Group has sought to instil a more lasting impression by way of providing exceptional service. Reflecting the seriousness by which it has taken up this matter, the Group has launched an All-Staff Service Promotion Programme to motivate employees so as to create a refreshing, customer-centric atmosphere at its restaurants. In order to gauge the results of the Programme, the Group has implemented customer surveys as well as ‘mystery customers’ who visit restaurants to appraise frontline service. A testament to the effectiveness of such efforts includes the recent garnering of the “Best Service Outlets” certificate of merit and winning an individual award in the Restaurants – Chinese Cuisine at Supervisory Level category of the 2017 Service & Courtesy Award, organised by the Hong Kong Retail Management Association (HKRMA).

The Group together with its associate operated a total of 62 restaurants as at the year ended 31 December 2017 (2016: 67 restaurants), including two RingerHut Japanese chain restaurants, one Taiwanese noodle shop and one T Café 1954 outlet.

Progress has also been achieved in terms of expanding the Tai Cheong Bakery chain overseas. In the past year, the business successfully cracked the Singapore market, opening an outlet at the Takashima Department Store on Orchard Road – a prime location, complementing an outlet in Holland Village. The management believes the partnership that the Group has established in penetrating the Singapore market will result in additional revenue to the Group, and will examine more partnerships for entering into other foreign markets. By no means reducing its commitment to the Hong Kong market, the Group continues to have a solid presence in the city. As at financial year end, the Group together with its associates operated a total of 19 Tai Cheong outlets (2016: 25 shops). Furthermore, a rebranding exercise has recently been conducted to give Tai Cheong a new brand image.

In view of current developments in the local catering industry, the management have and will continue to place efforts on refurbishing and optimising the Group’s restaurants. Rebranding will also be initiated with the goal of attracting younger customers, and will be supported by the introduction of more variety of dishes, which increases the competitiveness of the Group’s restaurants in general. As well, the management will continue to explore various marketing strategies and possible collaborations with other retail brands to diversify product offerings.

Mainland China Operations

Amid fierce competition, the Mainland China operations experienced a decline in revenue, slipping by 3.5% to HK$1,454.2 million (2016: HK$1,507.6 million). EBITDA consequently fell to HK$201.1 million (2016: HK$241.6 million), with profit attributable to owners of the parent amounting to HK$14.2 million (2016: HK$38.4 million).

The rise in competition was in part due to the departure of retail outlets from shopping malls – heavily impacted by online shopping, and in their place a saturation of restaurants. In the face of such developments, the management elected to introduce a greater variety of dishes that are not only appealing to the palette but also visually enticing, with this visual appeal extending to restaurant surroundings. The new restaurant opened in Longgang, Shenzhen after 31 December 2017 embodies this approach, offering delightful dishes and a unique ambience that includes a 4D projection system which enables the restaurant to take on different themes for banquets, appealing to the younger set.

A further development that highlights the management's resolve to bolster the performance of the Mainland China operation is the integration of e-commerce, which includes enabling customers to conduct mobile ordering and payment via such platforms as Alipay and WeChat Pay. And e-commerce has also been leveraged to augment the wholesale business. Via channels including Tmall.com and JD.com, the Group has been able to distribute its packaged frozen food across the country, thus enhancing revenue contributions from the wholesale and retail operation. With takeout and delivery service being increasingly popular, here too the Group has capitalised on the Internet to launch its takeaway service, employing such platforms as Meituan (美團) and ele.me(餓了嗎) to reach customers.

The Group operates a total of 44 restaurants (2016: 46) as at 31 December 2017. The Group also has 27 Bakerz 180 outlets (2016: 23 outlets) that generated combined revenue of HK$30.7 million (2016: HK$32.4 million) during the review year.

Peripheral Business

The supermarket component of the peripheral business has performed encouragingly, accounting for a significant proportion of the segment's revenue. Yet another favourable development involves the Group's private label products, which is the direct result of experience gained in producing OEM products for the Hong Kong market. The said products have helped increase turnover of this segment and has also served as the foundation for supporting online sales, which facilitates the Group's ability to reach different regions of the country.

Prospects

With fierce competition set to persist in both the Hong Kong and Mainland China catering sectors in the coming year, the management will maintain a tight rein on operations. At the same time it will implement various brand-specific strategies as well as continue to invest in staff training and incentive programmes. By also continuing to place efforts on consolidating and invigorating its core businesses in Hong Kong and Mainland China, the management aims to provide even better quality food and services, leading ultimately to sustained business growth.

While network expansion will remain part of the Group's business strategy, it will be conducted judiciously and mainly involving different operation modes to run restaurants in Mainland China. The management will also actively explore opportunities for collaborations, such as entering into joint ventures that result in the introduction of renowned restaurants and diversification of revenue streams and clientele. A perfect example is Du Hsiao Yueh, the famous century-old Taiwanese restaurant, which is expected to open two additional restaurants in Hong Kong in the coming year.

In Mainland China, the Group will utilise its logistics centre in Dongguan to bolster its wholesale business, and will leverage both online and offline support, including the Group's various supermarkets. This will allow the Group to capitalise on the influence of e-commerce. At the same time, the management will continue to explore new online platforms to attract customers from different regions and to cater for their specific needs. Still another area that the Group will seek to develop is the digital membership programme that was introduced during the year, the objective of which is to bolster sales and to build loyalty among customers in Mainland China.

The management remains optimistic about business development overseas and will therefore continue to explore opportunities to expand beyond traditional markets. Through Tai Cheong Bakery, and in respect of its partner in Singapore, two more outlets are expected to open in the republic next year. On the horizon is the Malaysia market, which the Group will also seek to open a Tai Cheong outlet. Separately, the Group will look to collaborate with overseas or international caterers in order to explore more overseas opportunities for Tai Cheong.

Mr Eric Leung, CEO of Tao Heung concluded, "Going forward, the management is confident in its ability to enhance operations supported by efforts at diversifying the existing business portfolio. By also leveraging the many competitive edges of the Group to grasp emerging opportunities, the management trusts that new revenue streams will be accessed leading to the rebound of performance and delivery of stable returns to the Group's shareholders."

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About Tao Heung

Established in 1991, Tao Heung has embraced the principle of "innovation" with the aim of becoming an esteemed and premier Chinese restaurants group. As of 31 December 2017, the Group together with its associates operate a network of 152 restaurants and bakery shops in Hong Kong, Mainland China and Singapore under 17 brands. These include Tao Heung, Tao Square, Pier 88, Hak Ka Hut, Cheers Restaurant, Chao Inn, Chung's Cuisine, Chung's Kitchen, One Roast, Joyous One, Cheers Palace, RingerHut, Tai Cheong Bakery, T CAFÉ 1954, Bakerz 180, T Point and Tao's Kitchen. Tao Heung was listed on the Main Board of The Stock Exchange of Hong Kong Limited in June 2007.

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